



FRAUD ADVISORY 24-00180-A-FA

TO: Legal Services Corporation (LSC) Grantee Executive Directors and Board Chairs

FROM: Thomas E. Yatsco, Inspector General

DATE: September 25, 2024

SUBJECT: Check Fraud Schemes Are on the Rise, But Using Positive Pay Can Mitigate Risks

Positive Pay Can Help Prevent Check Fraud

- Positive Pay is an automated cash-management service used by banks to prevent check fraud. Positive Pay allows banks to match issued checks with checks presented for payment. Checks identified by the bank as potentially fraudulent are sent back to the issuer for review.
 - In 2012 and 2019, the Office of Inspector General (OIG) informed LSC grantees of the benefit of Positive Pay to prevent check fraud within their bank accounts.
 - Recently, the OIG has seen an increase in the number of check fraud attempts targeting LSC grantees. Those grantees who enabled Positive Pay were able to thwart the suspect's actions, and no funds were stolen. Those grantees without Positive Pay were not alerted by their bank, the bank negotiated and paid the fraudulent check, and the grantee experienced a time-consuming process in an attempt to recover their funds.
 - Grantees should strongly consider using Positive Pay, when it is available and cost-effective, to help prevent the loss of funds.
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Resources on the Value of Positive Pay

To help grantees address the risk of check fraud, the OIG has created several resources. For information involving checking account frauds at LSC funded programs, see our previous [Fraud Alert 12-01-JS](#).

Also, please refer to our Fraud Corner article titled [“Preventing Checking Account Fraud through Bank Reconciliations and Positive Pay.”](#) Proper and timely bank reconciliation procedures substantially increase the likelihood of discovering banking transaction irregularities. We also suggest that grantees consider the use of Positive Pay, a fraud-prevention system offered by most commercial banks to customers, for a fee, to protect the customers against forged, altered, and counterfeit checks.

Recent Check Fraud Attempts at LSC Grantees

Grantees continue to report check and bank fraud issues to the OIG. In 2024, at least eight grantees reported that fraudsters attempted to process fraudulent check transactions against grantee bank accounts. The grantees who had agreements with their banks to enable Positive Pay were quickly alerted by their banks and none of the attempted transactions were processed.

Grantees who did not utilize the Positive Pay feature received no warning from their banks. Timely bank reconciliations by the grantees eventually identified the fraudulent check transactions, but only after the bank had negotiated and paid the fraudulent checks. This resulted in the affected grantees spending considerable staff time interacting with their banks in an attempt to receive a refund for the fraudulent checks that had been processed. For example, one of the checks processed resulted in a temporary loss to the grantee of approximately \$50,000.

LSC Requirements for Bank Reconciliations

As we stressed in our earlier fraud advisories, timely bank reconciliations are essential for all grantees but especially those grantees that do not have access to positive pay. The current LSC Financial Guide (effective January 1, 2023), requires the following regarding bank reconciliations:

3.2.1.c Bank Statements and Reconciliations

Recipients are required to perform bank reconciliations for each bank account on a timely basis after the close of each month. Monthly reconciliations must be performed by an individual who does not initiate or transmit electronic transactions, has no access to cash, is not a check signer, and has no bookkeeping duties.

The OIG believes conducting monthly bank reconciliations is essential to identifying discrepancies in financial transactions. In addition, the OIG maintains that technological solutions such as the use of Positive Pay can reduce the possibility of fraudulent transactions impacting grantee bank accounts. Grantees should consult with their respective banks regarding the availability and cost of Positive Pay.

Questions and Contacts

If you have any questions or comments or would like additional information about this advisory, please contact Daniel O'Rourke, OIG Assistant Inspector General for Investigations at (202) 441-9948 or by email dorourke@oig.lsc.gov.

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